

How to Read our Annual Report and Financial Statements

Do you have four minutes? That's all the time you need to take a quick tour through our annual report and learn a lot about the Postal Service. We think that you'll not only have fun browsing through our report because of our pictures, illustrations and factoids, but you'll also see just how important our message is.

After enjoying the pictures and illustrations, be sure to read Bill Henderson's letter. As our CEO he sets the strategy for the future. His letter will help you understand the challenges we face and the strategy he has put in place to fulfill our mandate to bind the nation together now and in the future. Next, take a quick look at either the Financial Highlights (page 2) or the Financial History (page 72). These pages will give you an idea of where we've been and suggest where we're headed.

Now, if you want to learn more, follow the guide below and examine our financial statements. Don't worry, you don't have to be a financial whiz. It's as easy as one, two, three.

STATEMENT OF OPERATIONS

Operating revenue: Increased for the fourth straight year.

Interest and investment income: For the fourth straight year we've reduced our income in this category because we manage our cash more effectively and invest in property and equipment so we can reduce costs, increase efficiency, and improve service.

Interest expense on borrowings: We reduced this expense 55 percent over the last three years by using the cash we generate from our operations instead of borrowing to make the investments we need to make.

Total expenses: Held to increases of less than 5 percent for the past four years.

Net income: For the fourth straight year we had positive net income.

BALANCE SHEETS

Cash and cash equivalents: We think it's better to work an asset than park it in a bank.

Workers' compensation costs: Any change in this liability directly reduces our bottom line, and this year we had an increase of 4 percent.

Total net capital deficiency: An improvement of 40 percent from 1997 and an improvement of 69 percent since 1996.

Total property and equipment: We increased our investments in property and equipment by 7.3 percent over 1997.

Deferred retirement costs: This asset and the off-setting amounts payable for deferred retirement benefits are best explained in Note 2 to the Financial Statements.

STATEMENTS OF CHANGES IN NET CAPITAL DEFICIENCY

Capital Contributions of U.S. Government: The federal government has invested \$3.034 billion in the Postal System.

Accumulated Losses Since Reorganization: Since 1994, we've reduced our cumulative losses from \$8.995 billion to \$3.844 billion.

Total Net Capital Deficiency: Since 1994, we've reduced our negative equity to \$810 million.

STATEMENTS OF CASH FLOWS

Increase (decrease) in workers' compensation costs: This increase of \$195 million over 1997 comes directly from our bottom line.

Net cash provided by operating activities: For the last four years we've been generating the cash we need to make investments for the future. That means we don't have to borrow as much as we once did.

Purchase of property and equipment: Over the last four years we've been increasing our investments in property and equipment so we can serve our customers better and reduce costs.

If you want to learn more about us (and we hope you do), you should read our Management Discussion and Analysis and our Notes to Financial Statements, which are full of important information on our financial condition and our plans for the future. And to make it easy for you to read these sections, we've written them in plain English so you don't have to be a lawyer or accountant to understand them.

Finally, we suggest that you compare us to other companies. Since many companies publish their annual reports on the World Wide Web, you can find a number of reports to which you can compare ours. And to help you read these reports, you can find a guide to reading annual reports at www.ibm.com/FinancialGuide.